

Exhibit C

packer capacity

Production-Packer Match Point

Producer output and packer capacity must coincide.

To function efficiently, the U.S.-Canadian pork sector must be a well-tuned interaction of mainly independent businesses. Input suppliers, producers, packers, processors, retailers and foodservice operators must all be "on the same page" in order to deliver to consumers the correct quantity of pork products with the right characteristics in a timely manner.

Stated more succinctly – producers and packers had better be in step with demand! The relationship of producer output and packer capacity is critical to

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accomplishing this task and maintaining producer prices at equitable levels.

Packing Capacity Benchmark

Prior to 1980, the U.S. pork packing sector was comprised of widely scattered, mainly multi-species, multi-story plants that usually operated just one shift daily. Those characteristics made plants quite flexible and allowed them to easily handle large seasonal variation of hog supplies. At times, fourth-quarter slaughter represented 30% of the year's total.

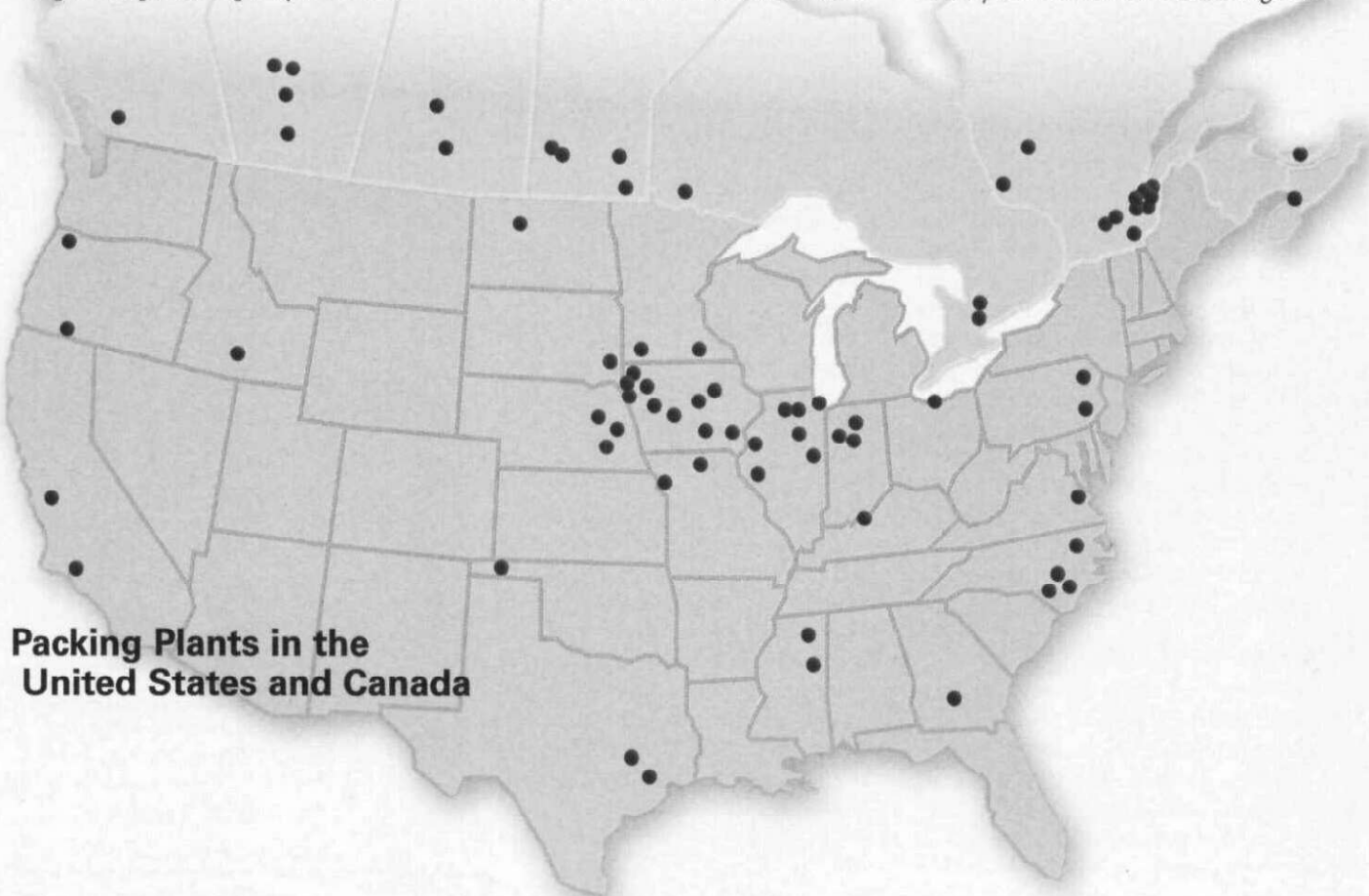
But those plants also reflected old technology and business models that left them vulnerable to innovative

competition.

The competitive balance of the meat industry began to change dramatically by the 1970s. Chicken had gone from being a by-product of the egg business and a relative luxury, as President Hoover promised "a chicken in every pot," to supplanting pork as a low-cost source of meat protein.

Pressure on pork packer margins and relatively lucrative labor contracts at the major packers of the day – Wilson, Swift, Hormel and Morrell – set off a period of labor unrest that was to open the door for new competitors.

Enter IBP. Iowa Beef Processors had already revolutionized beef slaughter



Packing Plants in the United States and Canada

and fabrication with low-cost, frequently non-unionized, efficient operations and boxed beef products. IBP promised to do the same in pork slaughter and fabrication, putting greater competitive pressure on established pork packers.

The advent of species-specific, single-story, high-throughput pork plants began a long period of tight margins that rationalized pork slaughter capacity by driving old, inefficient, poorly-located plants out of business.

That rationalization process collided with higher hog output for the first time in the fall of 1994, when cyclically higher hog numbers and diminished slaughter capacity caused delays in orderly marketing. Live hog prices fell to disastrous levels in the mid-\$20s.

The occasion, though, did provide one positive outcome: For the first time in virtually anyone's memory, we had a clear idea of the total capacity of U.S. pork slaughter facilities. A benchmark had been established. Little did we know how important this concept would become just four years later.

Importance of Packing Capacity

The packing-processing sector performs the absolutely necessary function of transforming live hogs into wholesale and retail cuts. It cannot be quickly replaced, and must be paid to perform those services.

Furthermore, no one in the packing-processing sector decides how much to produce. That decision rests solely with the people who breed and farrow sows.

For the pig-pork system to work well, packers must have enough capacity to slaughter and process whatever number of pigs producers can deliver at near optimal market weights in a given time period. If that number nears the capacity of packing facilities, packers' marginal cost (total cost added by the last unit processed) increases dramatically.

Since consumer prices are based, in the short run, on demand and not costs, the increase in packer marginal cost is taken out of the price paid for pigs. Obviously, this can spell potentially disastrous results for producers.

Figure 1 shows the strong negative relationship that existed between slaughter capacity utilization and hog prices

Table 1. Estimated Daily Slaughter Capacity (U.S. Plants – Market Hogs and Light Hogs)
(Company headquarters in parenthesis)

			Fall 2004		Fall 2005		Projected Fall 2006	
Rank	Company	City/State	Plant	Co. Total	Plant	Co. Total	Plant	Co. Total
1	Smithfield Foods (Smithfield, VA)	Tar Heel , NC	32,000		32,000		32,000	
		Smithfield, VA	7,800		Closed		Closed	
		Gwaltney, VA	9,500		10,800		10,800	
		Morrell	Sioux Falls, SD*	14,400	14,400		14,400	
			Sioux City, IA	14,500	14,500		14,500	
		Farmland	Crete, NE	10,400	10,400		10,400	
			Denison, IA	9,200	9,200		9,200	
			Monmouth, IL	9,000	106,800	9,000	100,300	9,000
2	Tyson Foods (Dakota Dunes, SD)	Waterloo,IA	19,200		19,200		19,200	
		Logansport, IN	14,500		14,500		14,500	
		Storm Lake, IA	14,500		15,000		15,000	
		Col. Junction, IA	9,800		9,800		9,800	
			Madison, NE	7,500	7,500		7,500	
			Perry, IA	6,800	72,300	6,800	72,800	6,800
3	Swift (Greeley, CO)	Worthington, MN	17,500		17,500		17,500	
		Marshalltown, IA	18,500		18,500		18,500	
			Louisville, KY	10,000	46,000	10,000	46,000	10,000
4	Excel (Wichita, KS)	Beardstown, IL	18,000		18,000		18,000	
		Ottumwa, IA	18,000	36,000	18,000	36,000	18,000	36,000
5	Hormel (Austin, MN)	Austin, MN	18,000		18,000		18,000	
			Fremont, NE	8,800	26,800	10,500	10,500	
		Clougherty	Los Angeles, CA	7,300	7,300	7,300	35,800	7,300
6	Prem. Std. (Kansas City, MO)	Milan, MO	7,300		7,300		7,300	
			Clinton, NC	10,000	17,300	10,000	17,300	10,000
7	Seaboard (Shawnee Mission, KS)	Guymon, OK	16,000	16,000	16,000	16,000	16,000	16,000
8	Indiana Packers Corp. (Delphi, IN)	Delphi, IN	12,500	12,500	12,500	12,500	12,500	12,500
9	Hatfield Quality Meats (Hatfield, PA)	Hatfield, PA	10,200	10,200	10,200	10,200	10,200	10,200
10	Sara Lee (Cincinnati, OH)	West Point, MS	6,200		6,200	6,200	6,200	6,200
11	Triumph Foods (St. Joseph, MO)	St. Joseph, MO			8,000	8,000	8,000	8,000
12	J.H. Routh (Sandusky, OH)	Sandusky, OH	4,200	4,200	4,200	4,200	4,200	4,200
13	Meadowbrook Farms (Rantoul, IL)	Rantoul, IL	4,000	4,000	4,000	4,000	4,000	4,000
14	Sioux-Preme (Sioux Center, IA)	Sioux Center, IA	3,500	3,500	3,500	3,500	3,500	3,500
15	Greenwood (Greenwood, SC)	Greenwood, SC	3,000	3,000	3,000	3,000	3,000	3,000
16	Fisher Ham and Meat (Spring, TX)**	Spring, TX	1,500		1,500		1,500	
		Navasota, TX	500	2000	500	2,000	500	2,000
17	Spectrum Meats (Mount Morris, IL)	Mount Morris, IL	1,600	1,600	1,600	1,600	1,600	1,600
18	Yosemite Meat (Modesto, CA)	Modesto, CA	1,500	1,500	1,500	1,500	1,500	1,500
19	Leidy's (Souderton, PA)	Souderton, PA	1,400	1,400	1,400	1,400	1,400	1,400
20	Vin-Lee-Ron (Mentone, IN)**	Mentone, IN	1,100	1,100	1,100	1,100	1,100	1,100
21	Martin's Pork Products (Falcon, NC)**	Falcon, NC	1,000	1,000	1,000	1,000	1,000	1,000
22	Cloverdale Foods (Minot, ND)	Minot, ND	920	920	920	920	920	920
23	Verschoor Meats (Sioux City, IA)**	Sioux City, IA	800	800	800	800	800	800
24	Peoria Packing (Chicago, IL)	Chicago, IL	750	750	750	750	750	750
25	The Pork Company (Warsaw, NC)**	Warsaw, NC	750	750	750	750	750	750
26	Independent Meat (Twin Falls, ID)	Twin Falls, ID	650	650	650	650	650	650
27	Masami Meat Co. (Klammath Falls, OR)	Klammath Falls, OR	650	650	650	650	650	650
28	DeKalb Co. Packing (DeKalb, IL)	De Kalb, IL	500	500	500	500	500	500
29	Carleton Packing (Carlton, OR)	Carleton, OR	375	375	375	375	375	375
30	Lowell Packing (Fitzgerald, GA)	Fitzgerald, GA	350	350	350	350	350	350
31	Parks Family Meats (Warsaw, NC)	Warsaw, NC	300	300	300	300	300	300
32	Morris Meat Packing (Morris, IL)	Morris, IL	200	200	200	200	200	200
33	Southern Quality Meats (Pontotoc, MS)**	Pontotoc, MS	130	130	130	130	130	130
TOTAL TOP & LIGHT HOG CAPACITY				380,875		390,775		390,775
TOTAL SOW AND BOAR CAPACITY				20,800		20,800		20,800
TOTAL HOG SLAUGHTER CAPACITY				401,675		411,575		411,575

*2,600 hd/day of capacity is counted for sows.

**These plants mainly slaughter light pigs (total: 5,780 head/day).

packer capacity

from 1994 to 2003. High utilization in the fall of 1994, 1998 and 2002 resulted in low hog prices. Low utilization in 1996-1997 and the summers of 2000 and 2001 resulted in high prices. Note that utilization rates of over 100% in this graph are the result of computing average daily slaughter, using monthly slaughter and the number of slaughter weekdays in a month. The extra slaughter is accomplished by operating extra weekday hours and Saturdays.

This negative relationship between these two variables fell apart to some degree in 2004 because of a huge increase (12%) in hog demand. That increase was the result of higher domestic pork demand, record levels of pork exports and, at least from July 2004 through June 2005, tight packer margins. It appears that the negative relationship has reasserted itself since mid-2005, as capacity utilization has increased and hog prices have fallen.

U.S., Canadian Capacity

U.S. and Canadian slaughter capacities, by plant and company, for 2004 through 2006 are shown in Tables 1-3. Note that Canadian capacity is weekly, while U.S. capacity is daily. Right-justified names in the company column (i.e. Morrell, Farmland) represent companies purchased by the current owner, whose name is left-justified (i.e. Smithfield) in that same cell.

No expansions of U.S. capacity are anticipated this year. But some capacity increases are quite subtle. Packers often increase throughput without adding plants, plant size or equipment, simply by developing new operational techniques. In fact, the current estimate of U.S. capacity is likely low for this very reason.

Need evidence? Consider the fall of 2004 (Figure 1). Very high-computed capacity utilization – even higher than that of the fall of 1998 – was not accompanied by extremely low prices. This probably occurred because our estimate of capacity is a bit too low, and thus, our computed utilization rate is a bit too high.

Packers aren't necessarily lying about their capacity; they just have every incentive to operate a plant in a manner that increases its output, and they don't always make those changes public.

According to the Canadian Pork Council, Canada's packing sector will grow this year as Olymel completes the expansion of its Red Deer, Alberta plant; the RDA plant in Quebec opens; and two other plants expand slightly.

Plans are in place for significant

capacity growth in both the United States and Canada in 2007 and 2008. Table 4 shows these increases, including new plants in Moline, IL, and Winnipeg, Manitoba. The combined increase of 32,850 head/day would represent a 6.4% increase of current combined capacity.

Figure 1. Hog Price & Capacity Utilization

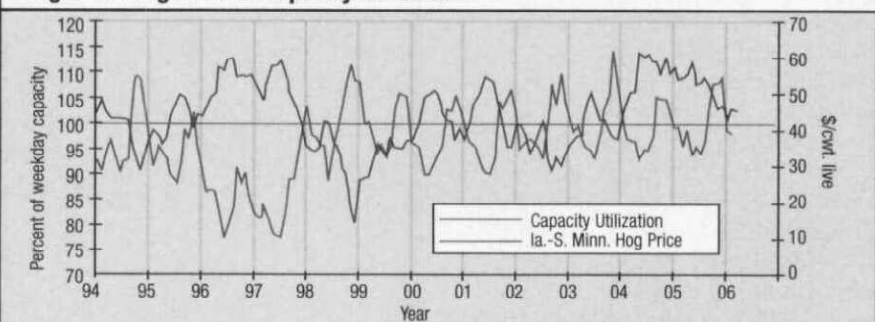


Table 2. Estimated Weekly Slaughter (Capacity Canadian Federally Inspected Plants)

				Fall 2004		Fall 2005		Fall 2006	
Rank	Company	City	Province	Plant	Company	Plant	Company	Plant	Company
1	Olymel	Vallee-Jonction	Quebec	35,000		35,000		35,000	
		St-Valerien	Quebec	38,000		38,000		38,000	
	Brochu	St-Esprit	Quebec	15,000		27,000		27,000	
	Brochu	St-Henri	Quebec	15,000					
	Fletchers	Red Deer	Alberta	45,000	148,000	60,000	160,000	80,000	180,000
2	Maple Leaf Foods	Brandon	Manitoba	45,000		45,000		45,000	
		Burlington	Ontario	43,500		43,500		43,500	
		Charlottetown	Prince Edward Island	5,000		5,000		5,000	
		Berwick	Nova Scotia	6,000		7,500		7,500	
		Lethbridge	Alberta	6,500		6,500		6,500	
	Schneider	Winnipeg	Manitoba	17,500	123,500	17,500	125,000	17,500	125,000
3	Quality Meat Packers	Toronto	Ontario	30,000	30,000	33,000	33,000	33,000	33,000
4	Abattoir St-Alexandre	St. Alexandre	Quebec	15,500	15,500	20,000	20,000	20,000	20,000
5	Du Breton	Riviere-du-Loup	Quebec	18,000	18,000	18,000	18,000	18,000	18,000
6	Mitchell's	Saskatoon	Saskatchewan	18,000	18,000	18,000	18,000	18,000	18,000
7	Springhill Farms	Neepawa	Manitoba	18,000	18,000	18,000	18,000	18,000	18,000
8	Trahan	Yamachiche	Quebec	12,000	12,000	15,000	15,000	15,000	15,000
9	Agromex	St-Blaise	Quebec	10,000	10,000	12,000	12,000	13,000	13,000
10	Conestoga	Breslau	Ontario	12,500	12,500	12,500	12,500	12,500	12,500
11	RDA	Les Cedres	Quebec					10,000	10,000
12	Britco Export Packers	Langley	British Columbia	6,000	6,000	6,000	6,000	6,000	6,000
13	Lucyporc	Yamachiche	Quebec	3,500	3,500	4,500	4,500	4,500	4,500
14	Kamouraska	St-Pascal	Quebec	3,500	3,500	3,500	3,500	4,000	4,000
15	Trochu Meats	Trochu	Alberta	3,500	3,500	3,500	3,500	3,500	3,500
16	J&M Meats International	Warburg	Alberta	3,000	3,000	3,000	3,000	3,000	3,000
17	Hebert	Ste-Helene-de-Bagot	Quebec	2,500	2,500	2,500	2,500	2,500	2,500
18	Oronor	Lorrainville	Quebec	1,000	1,000	1,000	1,000	1,000	1,000
19	Giroux	East Angus	Quebec	1,000	1,000	1,000	1,000	1,000	1,000
20	Sturgeon Valley	St. Albert	Alberta	1,000	1,000	1,000	1,000	1,000	1,000
	West Perth / Newco	Mitchell	Ontario	5,000	5,000				
	Worldwide Pork	Moose Jaw	Saskatchewan	5,500	5,500				
	Best Brand (formerly Forgan)	Winnipeg	Manitoba	10,000	10,000				
TOTAL WEEKLY CAPACITY					451,000		457,500		489,000
Source: Canadian Pork Council									

Source: Canadian Pork Council

packer capacity

What Does It All Mean?

These data suggest that U.S.-Canadian packing capacity will likely be sufficient for the foreseeable future. Higher U.S. hog supplies and relatively constant Canadian output through the fall of 2007 will increase utilization rates, but likely will not drive them to the problematic levels of years past.

If all planned capacity expansions actually occur, the growth rate of slaughter capacity will be higher than the growth rate of hog production through 2008. This will drive capacity utilization rates lower, putting positive pressure on hog prices and negative pressure on packer margins.

The latter raises the question: "What plant(s) may close?"

The U.S. list provides no clear answers. The plants that are usually considered suspect (Sioux Falls, SD; Monmouth, IL; Louisville KY;) have either seen major modernizing investments, or owe their owners little in terms of fixed costs.

While margins may get tight over the next two years, they are not likely to fall short of variable costs for any long period of time. Consequently, these plants will likely continue to operate. There simply isn't much vulnerable capacity in the United States.

On the other hand, Canada presently has excess slaughter capacity, and the planned expansions will increase that excess.

A number of Canadian plants are older and, at least by U.S. standards, less efficient. The current reduction of the Canadian sow herd, output difficulties related to porcine circovirus-associated disease (PCVAD), and a Canadian dollar that creeps closer and closer to par with the U.S. dollar will put economic pressure on the weaker plants.

The biggest risk for pork producers

Table 3. Estimated Daily U.S. Slaughter Capacity (Sows & Boars)

			Fall 2005 & Projected Fall 2006	
Rank	Company	Plant	Plant	Co. Total
1	Morrell	Sioux Falls, SD	2,600*	2,600
2	Jimmy Dean (Sara Lee)	Newburn, TN	2,600	2,600
3	Johnsonville	Watertown, WI	600	
		Momence, IL	1,350	
	Oldham's Sausage	Holton, KS	600	2,550
4	Pine Ridge Farms	Des Moines, IA	2,500	2,500
5	Pork King Packing	Marengo, IL	2,000	2,000
6	USA Pork Products**	Hazellton, PA	2,000	2,000
7	Abbyland Foods	Curtiss, WI	1,700	1,700
8	Bob Evans Farms	Bidwell, OH	200	
		Xenia, OH	300	
		Hillsdale, MI	300	
		Galva, IL	300	
	Owens Sausage	Richardson, TX	600	1,700
9	Odom's	Little Rock, AR	1,000	1,000
10	Calihan	Peoria, IL	425	425
11	F.B. Purnell Sausage	Simonsville, KY	400	400
12	J.C. Potter (Atlantic Premium Brands)	Durant, OK	400	400
13	Williams Sausage Company	Union City, KY	400	400
14	Dean Sausage	Atalla, AL	225	225
15	Wampler's Sausage	Lenoir City, TN	200	200
16	Gunnoe Sausage	Goode, VA	100	100
TOTAL				20,800

*Morrell sow capacity is estimated. Sioux Falls plant kills both top hogs and sows.

** USA Pork Products kills 80% boars, 20% butcher hogs.

in both the United States and Canada is that plant closures will be delayed long enough for any reduction in capacity to again coincide with a significant increase in hog numbers. When and if that happens, we could see a repeat of the '98 hog price disaster.

Should the planned sow herd expansions occur, some believe that another 100,000 to 150,000 sows will be added in the United States. There is a greater risk of such a replay. The pork sector simply will not work in the long run with production and packing sectors whose sizes do not match. **NHF**

Table 4. Expected New Market Hog Slaughter Capacity, 2007-2008

		New Capacity In:		Source of New Capacity
Company	Plant	2007	2008	
Triumph Foods (St. Joseph, MO)	St. Joseph, MO	8,000		Second shift
	Moline, IL		8,000	New plant, first shift
Trim-Rite (Carpentersville, IL)	Freeport, IL	4,000		New plant - break ground Q2-'06, open Q2-'07
Premium Standard Farms	Milan, MO	2,700		Expansion - planned opening Q2-'07
Farmland Foods	Denison, IA	1,150		Expansion - adding 1,150 hd/day in 2007
TOTAL NEW U.S. CAPACITY		15,850	8,000	
OlyWest (Canada)	Winnipeg, MB		9,000	New plant - Olymel, Hytek & Big Sky
TOTAL NEW U.S.-CANADA CAPACITY		15,850	17,000	

Field Vet Update

Water consumption is critical factor in oral vaccination



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We always seek to achieve successful immunization in 100% of the pigs in a population. Though oral (drinking water) vaccination makes the process much easier on the pigs and workers, it's essential to closely follow administration recommendations. Water consumption is an essential link with oral vaccine administration and is critical for achieving optimal immunity among vaccinated pigs.

A recent cooperative study with Dr. Anna Johnson at Iowa State University and Boehringer Ingelheim scientists reinforces the importance of providing sufficient time for all pigs to visit the drinker during oral vaccination. According to the study, which used 7-week-old nursery pigs and took place over a three day period, 81 to 98 percent of pigs visited the drinker within various two hour intervals. Within four hour intervals, 94 to 100 percent of the pigs visited the drinker and within six hour intervals 100 percent of the pigs visited the drinker at least once.

The study indicates that if producers do not provide sufficient vaccine administration time, they run the risk of some pigs not visiting the drinker for vaccination thereby remaining susceptible to disease and not achieving the full benefit of the investment in vaccination.

Boehringer Ingelheim and Iowa State University have planned additional cooperative research to better understand drinking patterns of both nursery and grow-finish swine to continually improve oral vaccination technology and the many benefits it brings to both pigs and people.

Boehringer Ingelheim manufactures oral swine vaccines for ileitis, salmonellosis, and erysipelas. The vaccines may be administered singly or in combination to protect against these common swine diseases.

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